

Updated Final Rule For The Long-Term Care Hospital Prospective Payment System

Under the LTCH PPS, CMS implemented several special payment provisions to account for short stays, interrupted stays, or unusually high cost admissions. Existing LTCHs have the option to transition over five years (with a blend of cost-based payments and full PPS Federal Rate payments), or they can elect to be paid 100 percent of the Federal Rate without a transition period. New LTCHs are paid based on 100 percent of the Federal Rate without a transition period.

The Final Rule describing the system was published in the Federal Register on August 30, 2002 (67 FR 55954). CMS published the Proposed Rule for the *first update* to the LTCH PPS on March 7, 2003 (68 FR 11234). After a period of comment, the Final Rule for the first update was published on June 6, 2003 (68 FR 34122). This update provided several important changes to the LTCH PPS that directly impact both providers and Fiscal Intermediaries (FIs).

This Fact Sheet highlights significant policy changes that were adopted in the June 6, 2003 Final Rule.

What Changes Were Made In The Updated Final Rule?

The June 6, 2003 Final Rule established a new time frame for the effective date of the annual update to the LTCH PPS. Initially, annual payment updates for the LTCH PPS were linked with the start of the Federal Fiscal Year (October 1). Beginning on July 1, 2003, a new LTCH PPS Rate Year is established as July 1 through June 30. On July 1 of each year, there will be payment updates based on:

- § An update to the Federal Rate;

Background	What Are Long-Term Care-Diagnosis Related Groups?
Under Medicare, Long-Term Care Hospitals (LTCHs) generally treat patients who require hospital-level care for an average of greater than 25 days. On October 1, 2002, the Centers for Medicare & Medicaid Services (CMS) established the Long-Term Care Hospital Prospective Payment System (LTCH PPS). In the LTCH PPS, the method of determining payments for LTCHs shifts from a reasonable cost basis to a per discharge system, based on Long-Term Care-Diagnosis Related Groups (LTC-DRGs).	The LTCH PPS uses Long-Term Care-Diagnosis Related Groups (LTC-DRGs) as a patient classification system. Each patient stay is grouped into an LTC-DRG based on diagnoses (including secondary diagnoses), procedures performed, age, gender, and discharge status. Each LTC-DRG has a pre-determined average length of stay (ALOS), or the typical length of stay for a patient classified to the LTC-DRG. Under the LTCH PPS, an LTCH receives payment for each Medicare patient based on the LTC-DRG to which that patient's stay is grouped. This grouping reflects the typical resources used for treating such a patient. Cases assigned to an LTC-DRG are paid according to the Federal payment rate, including adjustments.



- § An update to the Fixed-Loss Amount for High Cost Outlier payments; and
- § An update to the transition period Budget Neutrality Offset.

Annual updates to the LTCH PPS will be published in the Federal Register by May 1, but no later than June 1 (effective July 1).

As specified in the August 30, 2002 Final Rule, the LTC-DRGs and relative weights will be updated annually and will take effect on October 1. CMS will maintain the October 1 update for the LTC-DRGs and relative weights to coordinate with the annual update to the ICD-9-CM Diagnosis

Manual and the DRG updates for the Inpatient Prospective Payment System (IPPS), as required by the Health Insurance Portability and Accountability Act (HIPAA). Information regarding the LTC-DRGs and relative weights will be published annually in the IPPS Proposed and Final Rules.

This separation of the two updates provides a July 1 update of the Federal Rate and an October 1 update of the LTC-DRGs and relative weights.

Are There Any Rate Updates In The Updated Final Rule?

The updated Final Rule revises several key rates that affect the LTCH PPS payments. Table 1 shows a full list of the updated LTCH PPS components, along with the original rates, the new rates, and the effective dates for the changes.

Table 1. Updated Payment Rates and Effective Dates for LTCH PPS Components			
<i>The LTCH PPS Component</i>	<i>Rate or Version Effective October 1, 2002</i>	<i>New Rate or Version Effective July 1, 2003</i>	<i>Subsequent Updates Will Be Effective On</i>
Federal Rate	\$34,956.15	\$35,726.18	July 1
Fixed-Loss Amount	\$24,450	\$19,590	July 1
Budget Neutrality Offset	6.6% (0.934)	6.0% (0.940)	July 1
GROUPE Version	20	21	October 1
LTC-DRGs	—	—	October 1
Relative Weights	—	—	October 1

What Other Provisions Are In The Final Rule?

The June 6, 2003 Final Rule also includes several other important policy changes that affect the LTCH PPS:

- § **The bed number restriction** for satellites established by pre-1997 LTCHs is eliminated when an LTCH chooses payment based on 100 percent of the Federal Rate (i.e., once the LTCH stops receiving blended transition payments) or when the LTCH PPS is completely phased-in, whichever occurs first.
- § **The Short-Stay Outlier payment percentages for “Subclause (II) LTCHs”** are revised for the five-year transition period.
- § **The LTCH PPS market basket** (the excluded hospital with capital market) is revised and rebased from FY92 to FY97 to reflect the most recent data. The current labor-related share of the market basket (72.885 percent) will be maintained.

- § **The LTCH PPS wage index data** is updated using FY99 IPPS wage data. This is the same data used to compute the FY03 IPPS wage index.
- § **The final policy changes for High Cost Outlier and Short-Stay Outlier payments** based on the proposal presented in the March 7, 2003 Proposed Rule are discussed in the June 9, 2003 Outlier Final Rule (68 FR 34506).

Where Can I Go For More Information About The Updated LTCH PPS Final Rule?

The following online references provide more information about the LTCH PPS:

§ The Medicare Learning Network LTCH PPS Web Page

<http://www.cms.hhs.gov/medlearn/lrchpps.asp>

The Medlearn LTCH PPS Web Page features CMS provider education materials for the LTCH PPS, including the *CMS Long-Term Care Hospital Prospective Payment System Training Guide*.

§ Long-Term Care Hospital Web Page

<http://www.cms.hhs.gov/providers/longterm/default.asp>

The Long-Term Care Hospital Web Page provides the Final Rules and additional LTCH PPS-related documents, including a Frequently Asked Questions List. The Web Page also provides instructions on joining the LTCH PPS mailing list, which provides the latest LTCH PPS news and updates.

§ LTCH PPS Program Memorandum

http://www.cms.hhs.gov/manuals/pm_trans/a02093.pdf

Instructions for Fiscal Intermediaries implementing the LTCH PPS can be found in Program Memorandum A-02-093, *Instructions for Implementing the Long-Term Care Hospital Prospective Payment System*, dated September 27, 2002.

§ Payment Update for LTCH PPS Rate Year 2004 Program Memorandum

http://www.cms.hhs.gov/manuals/pm_trans/A03056.pdf

Instructions for Fiscal Intermediaries implementing the changes outlined in the June 6, 2003 Final Rule are included in Program Memorandum A-03-056, *Payment Update for Long-Term Care Hospital Prospective Payment System Rate Year 2004*.

§ Outlier Final Rule Program Memorandum

http://www.cms.hhs.gov/manuals/pm_trans/A03058.pdf

Instructions for Fiscal Intermediaries implementing the changes outlined in the June 9, 2003 Final Rule can be found in Program Memorandum A-03-058, *Change in Methodology for Determining Payment for Outliers Under the Acute Care Hospital Inpatient and Long-Term Care Hospital Prospective Payment Systems*.

Questions about the updated Final Rule and the LTCH PPS can be emailed to lrchpps@cms.hhs.gov.

Example

Time Period: July 1, 2003 through September 30, 2003

Medicare payments will be based on the updated Federal Rate determined on July 1, 2003 and LTC-DRGs and relative weights determined on October 1, 2002.

Grouper Version: 20

Time Period: October 1, 2003 through June 30, 2004

Medicare payments will be based on the updated Federal Rate determined on July 1, 2003 and LTC-DRGs and relative weights determined on October 1, 2003.

Grouper Version: 21